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SUBJECT: VIETNAM-CHINA TRADE: REPORT FROM LANG SON PROVINCE

SENSITIVE BUT UNCLASSIFIED PROTECT ACCORDINGLY.

REF: (A) Guangzhou 5377 (B) Guangzhou 4831

11. (SBU) Summary: Econ Counselor met with provincial and customs officials in Lang Son province, one of two main transit provinces for goods to and from China on March 16-117. Customs officials at Tan Thanh claimed that 80 percent of goods crossing the checkpoint were fruit, smuggling of pirated goods was no longer a problem, and that the ban on poultry imports from China is effective. While Trafficking in Persons (TIP) is an infrequent occurrence, drug smuggling remains a problem, and customs, police, and the border army in both Vietnam and China cooperate on both these issues. Customs officials' confidence regarding the degree of monitoring and control at this small border checkpoint begs the question as to how so many counterfeit products from China end up in Vietnam. End Summary.

A Major Transit Point for Trade with China  
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12. (SBU) Econ/C visited Lang Son province March 16-17, and met with provincial and customs officials. Located 180 km from Nanning in China and to the northeast of Hanoi, Lang Son is one of two main transit provinces for goods to and from China. The total volume of trade with China through Lang Son reached a high of USD 700 million in 2001, of which USD 450 million were imports to Vietnam. In 2005 the amount of two-way trade fell to USD 380 million, of which USD 305 million were imports to Vietnam. The province has a 253 km border with China, two international border checkpoints, and 3 additional crossings that permit Vietnamese and Chinese citizens to move through the border to the nearest province. Several of Vietnam's major transportation routes traverse Lang Son, including highway 1A (Vietnam's main north-south thoroughfare) and an international railroad line. An expressway linking Nanning to Lang Son City has been completed on the Chinese side; officials hope to begin construction on the Vietnamese side next year.

13. (SBU) In addition to meeting with officials, Econ/C visited the Lang Son market, famous in northern Vietnam for its electronics. Televisions, DVD players, karaoke machines, kitchen appliances, as well as other goods were readily available at bargain prices. While the majority of products for sale were Chinese brands, and possibly smuggled, many computer products appeared to be counterfeit. Also readily available were digital terrestrial decoder boxes, used to receive the 100 percent pirated Vietnam Television Technology Investment and Development Company (VTC) programming.

How DO those counterfeit goods end up in Hanoi?

14. (SBU) Econ/C visited the Tan Thanh "frontier economic zone," a border checkpoint established to permit the movement of Vietnamese and Chinese citizens and goods from border areas, and the least formal of the five border crossings in Lang Son province. Citizens of the two countries are allowed to cross without visas, but cannot go more than 30 kilometers from the border. According to customs officials, there has been a significant increase in cross-border trade in recent years, evidenced by increased tax revenues. Officials claimed that fruit comprises 80 percent of imports through the Tan Thanh checkpoint. (Comment: Given the amount of cheap Chinese electronics for sale in the Lang Son market and the fact that Tan Thanh customs officials inspect only 13 percent of shipments, this statistic could easily be unreliable. We also note that Ref B reports that according to the Vietnamese Consul General in Nanning, China primarily exports machinery equipment and raw materials to Vietnam and Vietnam exports bananas and agricultural products to China. End comment.) Machines, consumables, and motorbikes enter Lang Son through one of two international or two national checkpoints.

15. (SBU) Customs officials claimed that they have not seen counterfeit goods at the Tan Thanh checkpoint, but noted that by law, they are allowed to stop goods only if they receive a petition from enterprises, which has not occurred. A number of raids have been carried out in the border area in cooperation with the police and border army, and customs officials suggested this has resulted in a decrease in smuggling counterfeit goods through the checkpoint. Seized products included DVDs that were destroyed by a

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specially convened taskforce. Customs officials said they have made efforts to strengthen IPR enforcement by paying increased attention to trademarks, but cited the need for training and more detailed regulations.

Avian Influenza, TIP, Drugs, and Textiles

16. (SBU) Officials said that measures implemented to prevent the import of poultry infected with avian influenza (AI) from China through Lang Son province, which has not had any reported cases of AI, were effective, and have resulted in an 80-90 percent decrease in the number of smuggled birds. However, smugglers have continued using unofficial crossings on Lang Son's long border with China. Customs officials said that any discovered birds were promptly destroyed. (Note: Vietnamese media reported recently that Chinese chickens and ducks are being smuggled in large numbers due to their low price compared to birds raised in Vietnam. End Note.)

17. (SBU) Customs officials stated that they had not seen many cases of Trafficking in Persons (TIP), though they were aware of the problem and said that a number of victims had escaped from China and returned to Vietnam, where they received assistance from the Government. In most cases, young women are lured to China with the promise of high paying jobs that end up being prostitution. The customs, police and border armies of both countries work closely together on this issue. Drug smuggling continues to be a problem in the area. Police have intercepted a number of smuggling operations, and seized 3.6 kilos of heroin in the largest drug bust.

18. (SBU) Officials also stated that there had been no instances of textile transshipments through the checkpoint. They claimed that no completely or partially finished garments were imported, only fabric and fiber.

Valuation Procedures

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¶9. (SBU) Customs officials were aware of Vietnam's requirement that duties from most countries be assessed based on transaction value. They stated that customs officers inspect receipts, which they can check against an information system, and may adjust the price if they suspect fraud. While the office had computers, they can only process email. A World Bank customs project is expected to provide funding for them to link to a modern system.

Comment:  
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¶10. (SBU) Geography has given Lang Son province the potential to benefit from growing trade between Vietnam and China. However, the poor and winding road from Tan Thanh to Lang Son City will have to improve for this to become a more important trade route. While officials appeared confident in their assertions that most of what came in was fruit, they were not entirely convincing. For one thing, many Vietnamese in Hanoi will not eat fruit from China since the popular notion is that it contains excessive amounts of chemicals. A popular Hanoi anecdote is of an allegedly Chinese apple that retained its apparent freshness for two months outside. Given this apparent consumer distaste for Chinese fruit, it is entirely possible that this border crossing affords an attractive entry point for the many illegal items such as counterfeit DVDs and handbags that are evident in Hanoi and elsewhere.

MARINE